Commercial Real Estate Credit Approval Write-Up - LA6

<u>Analysis at L-3 Lease Maturity- End of Year 10:</u>
Presented below are several scenarios for Year 11 at L-3's lease maturity. The scenarios all conservatively assume L-3 vacates. The interest rate is shown at 6.00%, as the fixed rate period for the Borrower is expected to end at the end of Year 10 (expected 10 year swap).

ROLLOVER RISK: YEAR 11: L-3 VACATES		Scenario 1: Office space & industrial space leased at $12/SF & $6/SF, respectively.	Scenario 2: L-3 Vacates, Office & industrial space is leased @ $9.00/SF & $4.50/SF with 10% Vacancy	Scenario 3: 131,000 SF of Office Space leased at $17/SF	Scenario 4: Office space & industrial space leased at $9/SF & $1/SF, respectively with 10% Vacancy
Occupancy		*100%*	*90%*	*23%*	*90%*
Gross Income		[redacted]			
Commercial Income					
Commercial Reimbursements					
Effective Gross Income					
Expenses					
Cleaning & Maintenance					
Insurance					
Legal & Professional Fees					
Taxes					
Utilities					
Security					
Management Fee	[redacted]				
Replacement Reserve per sf	[redacted]				
Total Expenses					
Net Operating Income					
Senior Debt Service					
Remaining [redacted] %|					
Senior Debt Service					
Excess Cash Flow					
Senior DSCR					
Junior Debt Service					
$2MM NJ EDA, 3%, 20yr Amortization					
Excess Cash Flow					
Total DSCR					

Loan per Square Foot after 10 Years: $19.84

- The primary risk of this credit occurs at the end of Year 10, when L-3 may vacate. Currently, rental rates in office & manufacturing are bolstered from the NJ Economic Opportunity Act which offers economic incentives for companies to relocate to Camden. While determining the probability of the continuation of incentives 10 years away is ambiguous, this is mitigated by the 15yr amortization period which leaves an expected loan balance of less than $20/SF (based on $28MM in debt). The average sale price within a five mile radius of the property over the last five years was $115/SF for office space and $21/SF for industrial space, or a blended rate of $78/SF (based on the project's allocation of industrial & office space). There were no comparable sales within the immediate Camden area.
- Of the remaining exposure of $11.4MM at the end of year 10, a total of $6MM would have recourse to Lubert or Needleman (limited to $3MM total as guarantees are several). The guarantors each report ample capacity to support a $3MM guaranty [redacted]

- In addition, the capital reserve would continue which could be built up to as high as $1MM, along with an additional estimated $500M of excess cash flow escrowed to SB during the nine month period after L-3 gave notice prior to it vacating.
- In order to achieve a 1.20x DSCR in Year 11, the project would need an additional $3,710M in income or $8.32 gross rent per SF for the vacant space assuming that Cooper does take the 131,000 SF of office space is at $17/SF. If Cooper would drop its rent to $9/SF, the shortfall would increase to $4.8MM or $10.67 gross rent per SF.

Rent Roll Summary/Lease Analysis:

Unit	Tenant	Square Feet	% of SF	Potential Rent / mo	Potential Rent /SF	Lease Start	Lease Expiry	Lease Type	Total Potential Income
Total	3	576,798		435,090	9.05				5,221,084
200 Market Street	L-3 Communications	226,244	39%	84,842	4.50	7/15/2014	7/15/2024	NNN	1,018,098
100 Market Street: 1st & 3rd Floors	L-3 Communications	219,554	38%	164,666	9.00	7/15/2014	7/15/2024	NNN	1,975,986
100 Market Street: 2nd Floor	Currently Vacant	131,000	23%	185,583	17.00				2,227,000

A copy of the lease agreement with L-3 Communications has been provided to the Bank. The lease calls for total monthly base rent of $249,507 (with no lease escalators), with the tenant paying its pro-rata share of all costs and expenses related to the property. Operating expenses do not include consulting and professional fees. The Borrower is responsible for the maintenance and repair of the roof and structural portions of the building. L-3 is not subject to any economic subsidies.

L-3 has occupied the subject space since 1997 (with the most recent lease effective 7/15/14). The lease with L-3 is for ten years with two five year renewal options. L-3 must notify the Borrower a minimum of nine months prior to lease maturity if it intends not to exercise its renewal option. There are lease escalators in place for the two extension options. A lease abstract has been attached with additional detail.

L-3 is permitted to sublease the space provided the Borrower provides written consent. There is potential that L-3 may give back some space to Lockheed Martin. If so, it is expected that the space would be leased in a manner similar to the potential lease discussed below, and would take advantage of tax subsidies.

Negotiations are underway for the balance of the vacant space to be leased for 15 years to a related entity of Cooper Health Care. The $17/SF lease shown above represents what has been under discussion between the Borrower and Cooper. Although the $17/SF is well above L-3s rental rate, this amount is expected due to the subsidies provided by the NJ Economic Opportunity Act of 2013. Execution of the Cooper lease is not a condition of closing.

Cooper has also expressed interest in purchasing up to a 50% interest in the project. This purchase however, cannot occur until after loan-closing, in order for Cooper to take advantage of economic incentives.

L-3 Communications and Cooper are both investment grade tenants, with S&P bond ratings of BBB- and BBB, respectively. More detailed analysis on both L-3 Communications and Cooper Health Care are attached.

VALUATION

Closing will be subject to a maximum 70% LTV based on the “as stabilized” market value of Facility A ($28MM), and 75% of Facility C (additional $2MM bridge loan) as determined by a new appraisal.